HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Trois-Rivières CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Overall, the economic and demographic environment will not be very supportive of housing demand in the Trois-Rivières census metropolitan area (CMA).
- Resale market conditions will ease further.
- Existing home prices will register modest increases.
- Housing starts will fall in 2014 (-12 per cent) and 2015 (-15 per cent).

Figure 1

Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

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New home market: slowdown to continue

Residential construction in the Trois-Rivières area will continue to decline in 2014 and 2015. Even though financing conditions will remain attractive and the job market will pick up slightly, the slowdown in migration and, especially, the ever-greater choice of properties for sale on the existing home market will limit demand for new housing.

The downward trend in single-detached home construction, which began several years ago, will continue. It should be mentioned that the strong price increases recorded in recent years have made such houses less affordable in the CMA. Single-detached housing starts should fall by 10 per cent in 2014 and then by 9 per cent in 2015. First-time homebuyers will keep turning instead to less expensive housing types, such as semi-detached and row homes. Starts of semi-detached and row houses will remain stable, as foundations will be laid for some 145 such units in 2014 and 2015. The same will hold true for condominium apartment starts, which will stay at the same levels this year and next.

Lastly, after having slowed down in 2012, the pace of rental apartment construction picked up again in 2013 and will be maintained in 2014, despite the less tight conditions on the market. With this additional supply of new units, rental market conditions will ease further. As a result of this easing, the rate of construction will slow down again in 2015. Consequently, 325 new rental units will be enumerated in the CMA in 2014 and 250, in 2015.

In all, 750 housing starts should be recorded in 2014 (-12 per cent) and then 640, in 2015 (-15 per cent). Starts volumes will now be below the levels recorded over the past decade, which stood out with significant residential construction. Expected volumes will thus become progressively more in line with household formation levels in the CMA.

Existing home market: conditions to be less tight

Following a difficult year in 2013, the Trois-Rivières area resale market will pick up again somewhat in 2014 and 2015. Supported by the slight recovery of the job market and financing conditions that will remain favourable, Centris® sales will rise. A gain of 5 per cent should therefore be registered in 2014. The increase is expected to be slightly smaller in 2015 (+3 per cent), on account of the anticipated rise in mortgage rates. Overall, 975 residential properties will change hands in 2014 and 1,000, in 2015.

In the space of just a few years, the picture of the market has changed: while market conditions clearly favoured sellers in 2010, they progressively eased and have now become balanced.[1] Over the forecast horizon, the easing will continue, as conditions will hover on the cusp between a balanced market and a buyer's market. In fact, on the supply side, the upward trend that began in 2011 will continue. With the more abundant choice of properties for sale, market conditions will ease further. However, the easing trend will slow down slightly in 2014 and 2015, as a result of the rise in sales.

Although slower, this easing trend will lessen the upward pressure on prices, and the increases will be more

Figure 2

Source: QFREB by the Centris® system
f: CMHC forecasts

[1] The balanced range is between 8 and 10 sellers per buyer, indicating a market where neither sellers nor buyers are favoured.

modest. The average price of existing homes will therefore reach $162,500 in 2014 (+2.5 per cent) and then $165,500 in 2015 (+1.8 per cent).

Rental market: easing on the horizon

After a pause in 2013, the easing of the market that began in 2010 will continue in 2014 and 2015. The positive impact of the job market recovery on housing demand will be offset by the slowdown in migration. The net result will be that demand for rental housing will remain stable. On the supply side, the pace of construction, which had definitely slowed in 2012, picked up again considerably in 2013. Despite the less tight market conditions, this rate of production will be maintained in 2014, before slowing down again in 2015. It should be noted that demand for new units remains steady, thanks in part to interregional migration. Young retirees, more and more of whom are coming back to settle in the Trois-Rivières area, seek such newer rental dwellings.

The additional supply of new rental housing units, combined with the stable demand, will cause the market to ease further, and the vacancy rate should reach 5.5 per cent in 2014 and then 6.0 per cent in 2015. These softer conditions will limit the rent increases. The average rent for two-bedroom apartments will therefore reach $560 in 2014 and $565 in 2015.

Economic trends: job market to pick up slightly

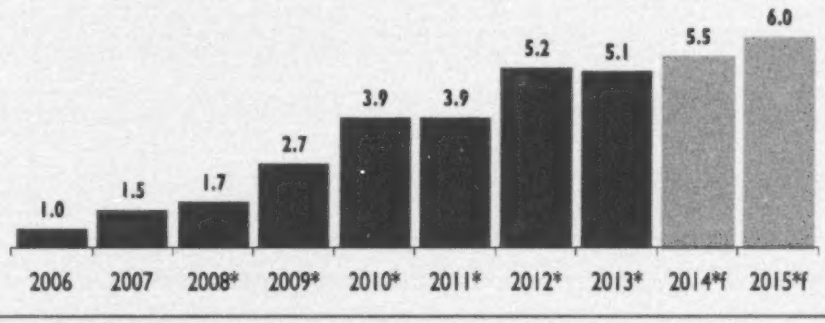
After two difficult years, the job market will show renewed growth in 2014 and 2015. Job creation should however be modest and insufficient

Figure 3

Rental Market Easing

Vacancy Rate (%) – Privately Initiated Structures with Three or More Apartments

Trois-Rivières CMA



Source: CMHC f: CMHC forecasts

* Rental housing units for seniors were withdrawn from the survey universe.

to make up for the losses registered in the last two years. It should be recalled that the employment level recorded in 2013 was the lowest in more than 15 years in the Trois-Rivières area.

Even though housing starts are expected to slow down, the non-residential construction sector will be supported by the addition of several new manufacturing plants. The global economic recovery, combined with the weakness of the Canadian dollar against its U.S. counterpart, will also give a boost to manufacturing companies. In fact, residential construction in the United States, the area's largest trading partner, is progressively picking up, which will have a positive impact for a number of local businesses. The Trois-Rivières manufacturing sector, hit by several difficult years, will welcome this new environment. Lastly, even if the labour market will continue to be affected by the significant job losses resulting from the closure of the Gentilly-2 nuclear generating station, the establishment of a diversification fund of nearly $200 million will help attenuate the negative effects of the layoffs.

On the demographic front, migration—a real driver of housing demand in the CMA for almost ten years now—will be slightly less significant. While the job market is expected to post a slight recovery, the situation will remain fragile and the unemployment rate will stay high. This will make the CMA less attractive to newcomers as well as to the labour force from outside the area. On the other hand, the area will benefit from the return of numerous young retirees (55 years or older) coming back to settle there. This will contribute to the aging of the population and help shape the housing demand in the area. In fact, the residential real estate market will have to adjust and offer these clients dwellings that will meet their

needs.

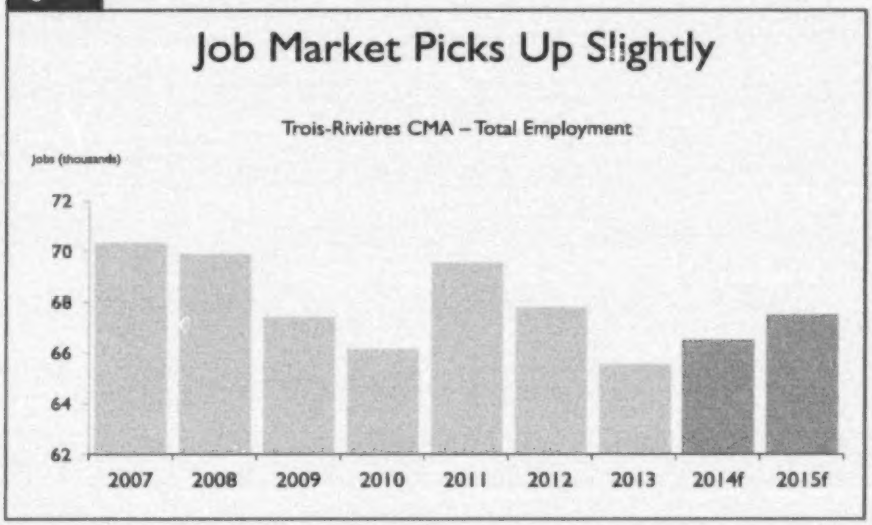
Overall, the economic and demographic environment will not be very supportive of housing demand in the Trois-Rivières area in 2014 and 2015. As for employment, modest gains are expected in 2014 and 2015 (1.5 per cent in both cases). Over the coming years, the area's growth and economic development will depend on its ability to diversify its economy.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Figure 4



Source: Statistics Canada f: CMHC forecasts

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	After two difficult years, the job market will show renewed growth in 2014 and 2015. Job creation should however be modest.
Income	Average weekly earnings are increasing at a rate below inflation in the Trois-Rivières CMA. Net income growth is therefore practically nil, which is limiting housing demand.
Population	While migration will remain strong in the CMA, net migration levels are expected to be slightly lower, which will be less supportive of the residential real estate market.
Resale Market	The supply of existing properties will be more abundant, which will limit activity on the new home market.
Other (economy)	The closure of the Gentilly-2 nuclear generating station will result in numerous layoffs, spread out over several years, which will curb employment growth in the area.

Forecasts risks

- If the economic recovery in the United States were to be less robust than expected, this would affect the local economy. Job market growth could then be weaker than anticipated. Such a situation would further limit housing demand over the next two years.
- The positive effect on the local economy of the diversification fund established in response to the closure of the Gentilly-2 nuclear generating station could be less significant than anticipated. This would limit potential job market growth.
- A greater-than-expected increase in the number of properties for sale on the market could cause market conditions to ease much more significantly.

Forecast Summary Trois-Rivières CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	335	305	243	220	-9.5	200	-9.1
Multiples	779	716	606	530	-12.5	440	-17.0
Starts - Total	1,114	1,021	849	750	-11.7	640	-14.7
Average Price ($):							
Single-Detached	218,822	215,261	214,804	215,500	0.3	216,500	0.5
Resale Market[1]							
Centris® Sales	991	1,026	928	975	5.1	1,000	2.6
Centris® New Listings	1,663	1,782	1,767	1,800	1.9	1,850	2.8
Centris® Active Listings	679	727	838	900	7.4	950	5.6
Centris® Average Price ($)	156,197	154,558	158,582	162,500	2.5	165,500	1.8
Rental Market[2]							
October Vacancy Rate (%)	3.9	5.2	5.1	5.5	_	6.0	_
Two-bedroom Average Rent (October) ($)	547	550	555	560	_	565	_
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3,00 - 3,50	-	3,20 - 4,25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5,00 - 5,50	-	5,25 - 6,00	-
Annual Employment Level	69,600	67,800	65,500	66,500	1.5	67,500	1.5
Employment Growth (%)	5.1	-2.6	-3.4	-1.3	-	1.5	-
Unemployment rate (%)	8.7	7.9	8.5	8.4	-	8.4	-
Net Migration	1284	1108	1087	950	-12.6	950	0.0

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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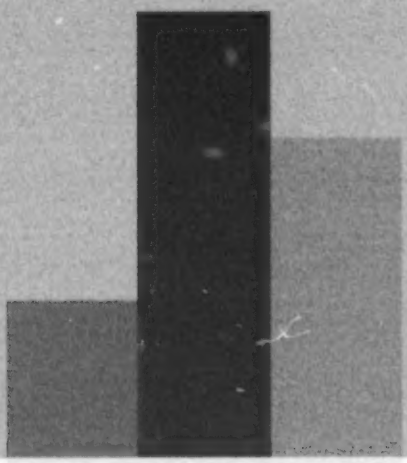

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